



# International Agricultural Trade Report

## Weekly Market Report: Dairy, Livestock, & Poultry

April 14, 2000

### Canada Poised To Become World's Leading Pork Exporter In 2000

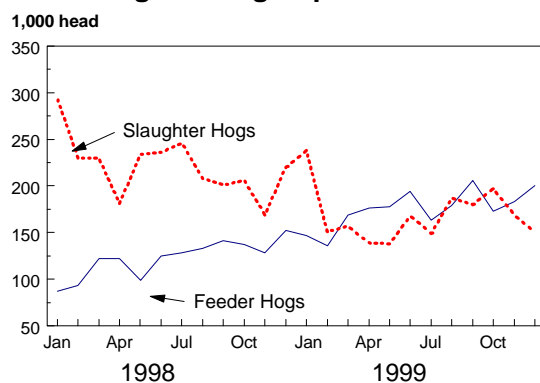
Canadian pork exports increased significantly in 1999 and are poised to make Canada the world's leading pork exporter by the end of 2000. While much of Canada's growth in pork production is attributed to its growing slaughter capacity, other factors have influenced its position as an international trader. Engendered by the North American Free Trade Agreement (NAFTA), the United States and Canadian pork industries have strengthened ties through cross-border investments and producer/packer contracts. Furthermore, increased consolidation and vertical coordination have allowed highly integrated industries to take full advantage of economies of scale and more efficient production techniques. This has fundamentally impacted traditional North American production and trade patterns, placing Canada, with fewer restrictions on land and water resources, competitive feed prices, and newer investments in pork production technology, at an advantage relative to the United States.

### Structural Shifts in the North American Pork Industries Impact Live Hog Trade...

Producer/packer contracts have impacted traditional live animal trading patterns along the mid-west U.S./Canadian border. While Canadian slaughter hogs have typically been attracted to more lucrative selling opportunities and greater shackle space at U.S. slaughter facilities, increasing demand for slaughter hogs in Canada is expected to prompt Canadian packers to retain Canadian hog supplies through producer contracts. Continued expansion in western Canadian slaughter capacity is expected to lead to increased competition among U.S. and Canadian packers, and fewer Canadian slaughter hog exports. Producer/packer contracts are increasingly aligning hog supplies with shackle space and production schedules, side-stepping, to a large extent, cash hog markets. Industry sources relay that nearly 60 percent of U.S. producers have entered into producer/packer

contracts, with approximately 12 percent of slaughter in northern-tier states sourced-out of Canada. Similarly in Canada, producer/packer contracts represent an estimated 40 percent of slaughter hog purchases.

### Canadian Feeder Hog Exports Grow as Slaughter Hog Exports Decline



Conversely, declining U.S. farrowing operations since 1998, in addition to a relative abundance of Canadian feeders over Canadian finishing capacity, has led to increasing U.S. imports of Canadian feeder hogs. Canadian feeder hog exports to the United States are expected to remain strong until market forces make investments in Canadian finishing operations more

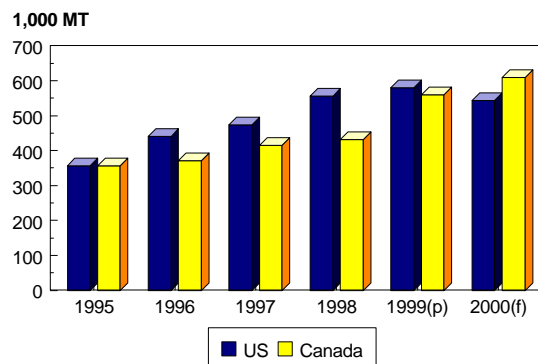
attractive. Canadian industry sources estimate that feeder exports to the United States will decline within 2 years. While total U.S. imports of Canadian hogs remained relatively unchanged in 1998 and 1999, the composition of slaughter hogs to feeder hogs has shifted. In 1999, U.S. feeder hog imports increased more than 30 percent over 1998 levels, while slaughter hog imports fell by as much.

### **...As Well As International Pork Trade**

Although fewer Canadian slaughter hog exports may relieve U.S. hog producers from import competition, increased Canadian slaughter capacity has resulted in increased Canadian pork production. In 1999, Canadian pork exports to the United States have made significant 27-percent year-over-year gains and are poised to reach record levels in 2000. Conversely, Canadian imports of U.S. pork have fallen more than 5 percent over the past 2 years and are expected to continue to decline.

Canadian exports are likely to remain strong as long as Canadian prices and product quality are competitive with the United States. Other than the United States, target markets for Canadian product include Japan, Korea, and Mexico. Japanese trade data reported a 43-percent year-over-year increase in Canadian pork imports for 1999. In that same year, U.S. market share in the Japanese chilled products market fell from 71 percent to 66 percent and, in the frozen product market, from 16 percent to 13 percent, due to increased competition from Canada and Denmark.

**Canadian Pork Exports to Surpass U.S. Exports in 2000**



### **Further Integration Towards a North American Pork Industry and Market**

The U.S. and Canadian pork industries are becoming more closely integrated through increased cross-border investments and intensified live hog trade along the border. A pointed example of cross-border integration is the acquisition of J.M. Schneider and Mitchell Gourmet Foods by United States based Smithfield Foods in late 1998 and 1999. The merging of U.S. and Canadian industries will most likely be reflected by even greater strategic coordination in allocation of resources and production, further market penetration of products in across-the-border markets, and a narrowing in the live hog price gap between the two industries. Adjustment between U.S. and Canadian hog prices is expected to occur as Canadian packers increase their bidding price in order to compete with higher U.S. prices and a stronger U.S. dollar and cross-border linkages encourage hog-sourcing from both sides of the border.

Whether a competitor or a partner in international pork trade, Canada is expected to remain inextricably integrated in the future of the U.S. pork industry. While integration of the U.S. and Canadian pork industries is expected to lead to further concentration and vertical coordination, especially around the mid-continent border region, those expanding their operations will likely see costs of production decline. The structural shift towards larger producers and greater economies of scale is expected to continually challenge smaller hog producers, many of which may fall into production for niche markets, the spot market, or out of production altogether.

**DLP Contact: Melissa Schmaedick/720-7715**